



Homeland  
Security

March 4, 2005

MEMORANDUM FOR: Karen E. Armes  
Acting Regional Director  
FEMA Region IX

*Robert J. Lastrico*

FROM: Robert J. Lastrico  
Field Office Director  
Office of Audits

SUBJECT: *Audit of the City of Los Angeles- Department of Building and Safety  
Los Angeles, California  
Public Assistance Identification Number 037-91075  
FEMA Disaster Number 1008-DR-CA  
Audit Report Number DS-11-05*

The Office of Inspector General (OIG) audited public assistance grant funds awarded to the City of Los Angeles Department of Building and Safety, Los Angeles, California (Department). The objectives of the audit were to determine whether the Department (1) followed federal regulations pertaining to the interest earned on grant funds provided by the Federal Emergency Management Agency (FEMA), and (2) expended and accounted for FEMA funds according to federal regulations and FEMA guidelines.

The Department received a public assistance grant award of \$23.9 million from the California Office of Emergency Services (OES), a FEMA grantee. The award provided for emergency protective measures and permanent repairs to facilities damaged by the Northridge earthquake on January 17, 1994. The award provided 100 percent federal funding for emergency work until January 25, 1994, and 90 percent FEMA funding thereafter for five large projects and one small project.<sup>1</sup> The audit covered the period January 17, 1994, to October 2, 2002 and included the review of the five large projects with a total award of \$23.87 million (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United

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<sup>1</sup> Federal regulations in effect at the time of the disaster set the large project threshold at \$42,400.

States. The audit included review of FEMA, OES, and Department records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

## **RESULTS OF AUDIT**

The OIG determined that the Department earned \$1,877,676 in interest on \$33.3 million<sup>2</sup> in FEMA funds provided to the Department and the interest was not remitted to FEMA as required by federal regulations. In addition, the OIG questioned \$63,480 of unsupported project costs claimed by the Department (FEMA's share of the questioned amount is \$57,132). Further, as noted under "Other Matters", FEMA did not ensure that the Department maintained documentation proving that the claim submitted for large project 15711 was net of fees collected from FEMA funded building inspections.

### **Finding A – Interest Earned on Federal Funds**

In response to the devastation caused by the Northridge Earthquake, FEMA advanced OES a total of \$201 million in public assistance grant funds. Of the \$201 million, OES advanced \$75 million to the City of Los Angeles (City) and the City re-distributed the funds to various City departments that had applied for disaster assistance separately. Of the \$75 million, the Department received a \$7.5 million advance to cover disaster repair costs.

Unaware that the City had provided advance funding to the Department, FEMA provided the Department an additional \$25.8 million in public assistance funds from January 1995 to January 1996, to cover disaster repair costs. The City's accounting records showed that \$33.3 million (\$7.5 million plus \$25.8 million) in FEMA funds was deposited in an interest bearing account as the funds were received from OES. On November 6, 1998, the Department returned the initial \$7.5 million advance to FEMA. Of the \$25.8 million, the Department used \$23.9 million to pay for disaster repair costs and returned the \$1.9 million unused balance (\$25.8 million less \$23.9 million) to FEMA in September 2002. Further, the City's accounting records showed that the Department earned \$1,877,676 in interest income that had not been forwarded to FEMA as required by federal regulations. Department officials agreed that interest was earned on the advances. Those officials explained that the interest had not been returned because FEMA had not provided instructions on how to remit the funds.

The Comptroller General of the United States has consistently held that, except as otherwise provided by law, interest earned by a grantee on funds advanced by the United States under an assistance agreement pending their application to grant purposes belongs to the United States and that all such interest is required to be accounted for as funds of the United States.<sup>3</sup> In addition, 44 CFR § 13.21(h)(2)(i) indicates that grantees and subgrantees are required to remit to FEMA the interest earned on advances at least quarterly. Since this did not occur, FEMA Region IX should take

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<sup>2</sup> \$7.5 million initial advance plus \$25.8 million for estimated disaster repair costs.

<sup>3</sup> GAO Principles of Federal Appropriations Law, Vol. II, Chapter 10, Section E3., Interest on Grant Advances (1992).

immediate action to recover the \$1,877,676 in interest earned on the public assistance funds provided to the Department.

### **Finding B – Unsupported Project Costs**

The Department's claim for project 15711 included \$63,480 in costs that were not supported with documentation showing the charges were eligible or disaster related. According to 44 CFR § 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used. The Department claimed \$293,235 in disaster related costs for project 15711. However, project accounting records only included support for \$229,755 of the amount claimed. Since accounting records did not support the amount claimed, the OIG questioned \$63,480 of the Department's claim (\$293,235 less \$229,755).

### **OTHER ISSUES**

Project 15711 provided the Department with public assistance grant funding for various disaster related activities and covered the costs of issuing permits for the demolition and reconstruction of residential and commercial structures. As a condition to receiving funding for this project, the Department agreed to collect permit fees from property owners for non-disaster related construction work, and for instances where permit costs were paid by other federal programs or by insurance. The Department also agreed to offset the final project costs with fee income received from the issuance of permits.

According to 44 CFR § 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used and follow Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining reasonable costs. Also, OMB Circular A-87, Attachment A, Section C.4 states that credits received by a governmental unit related to a federal government financed activity must be credited to the federal award either as a cost reduction or cash refund, as appropriate.

In reviewing accounting records supporting the Department's claim for this project, the OIG identified instances where the Department collected permit fees seemingly as a result of FEMA funded efforts. However, Department records did not include any documentation showing that the fees collected were offset against project costs. Department officials stated that the permit fees were not used to offset project costs, because related costs were not included in the project claim and some fees were reimbursed back to payers of the fees. Those officials, however, were unable to provide the OIG with documents that identified the total amount of permit fees collected and the related costs presumably not included in the final project claim; and the amount of permit fees collected but reimbursed back to payers of the fees.

While we found that permit fees were collected, the lack of documentation precluded us from determining what fees were specific to FEMA related work and whether those fees were credited to the project, as required by the project funding agreement. In addition, the lack of documentation also

precluded us from validating statements made by Department officials. Thus, we cannot unequivocally state that the costs claimed by the Department included amounts that should have been credited to the project. Consequently, the OIG is presenting this issue for informational purposes only and is not recommending that FEMA take any specific action relating to the Department's claim for project costs. Nonetheless, the audit determined that Department had not maintained adequate documentation as required by 44 CFR § 13.20(b) to support the accounting and administration of permit fees collected and related costs. Further, the audit found that FEMA did not ensure that the Department complied with specific terms and conditions of the project relating to the collection of permit fees and thus FEMA cannot be assured that the final project claim was net of fees collected. In the future, FEMA Region IX needs to monitor subgrantee compliance with federal regulations and with the terms and conditions specified in project authorizations.

### **RECOMMENDATIONS**

The OIG recommends that the Acting Regional Director, FEMA Region IX, in coordination with OES,

1. Recover \$1,877,676 of interest earned by the Department on FEMA funds, and
2. Disallow \$63,480 of the Department's claim for costs that were not supported.

### **DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP**

The OIG discussed the results of this audit with Department officials on February 14, 2005. Those officials agreed with the findings. The OIG also notified FEMA and OES officials of the audit results on March 1, 2005.

Please advise this office by May 3, 2005, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Humberto Melara, Ravi Anand, Gale Dwyer, Tony Fajardo, and Michael Long.

Schedule of Audited Projects  
City of Los Angeles Department of Building and Safety  
Los Angeles, California  
Public Assistance Identification Number 037-91075  
FEMA Disaster Number 1008-DR-CA

Project Number	Amount Awarded	Costs Questioned	Finding Reference
01212	\$ 441,339	\$ 0	
01213	666,919	0	
01214	74,081	0	
51691	2,396,996	0	
15711	<u>20,291,382</u>	<u>63,480</u>	B
Total	\$23,870,717	\$63,480	

Finding Reference Legend:

B – Unsupported Project Costs